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UNCLAS SECTION 01 OF 02 TAIPEI 000401

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/RSP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER  
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY PLEASE PASS TO OCC/AMCMAHON  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Foreign Stake in Major Taiwan Finance Firm

REF: 05 TAIPEI 3287

[11.](#) SUMMARY. Foreign investors plan to acquire 27% equity in Taishin, Taiwan's eighth largest financial holding company (FHC), for NT\$31 billion (US\$970 million at NT\$32 per US dollar). As part of the deal, Taishin increased its 2005 reserves for bad debt, thereby changing a profit to a loss in its annual report. The additional capital and increased debt reserve significantly improves the credit standing of Taishin and will enable it to increase its stake in the formerly state-owned Changhwa Commercial Bank, in which Taishin gained controlling interest in July 2005, reftel. END SUMMARY.

#### Foreign Investment through Private Placement

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[12.](#) Newbridge Capital (NC), a San Francisco-based buyout company, recently struck a deal to acquire a little over 23% ownership in Taishin through a private placement to buy NT\$27 billion of Taishin equity. The equity includes NT\$8 billion in common shares, NT\$12 billion in preferred shares, and NT\$8 billion in convertible corporate bonds. The deal stipulates that the corporate bonds can be exchanged for 5.6% equity in common stocks one month after issue, and that the preferred shares can be exchanged for 10.5% equity in common shares three years after issue. There is no deadline for converting either the bonds or the preferred stock.

[13.](#) Meanwhile, on February 6, Taishin accepted an offer from Nomura, a Japanese securities firm, to purchase NT\$4 billion of Taishin equity, including NT\$2 billion in common stocks and another NT\$2 billion in preferred stocks. When the preferred shares are converted to common shares, Nomura will have 3.9% ownership in Taishin.

[14.](#) When the two foreign investors complete their subscriptions, NC will control two of the nine seats on Taishin's board of directors (Nomura will not control any seats).

#### Large Bad Debt Reserve

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[15.](#) As part of its deal with NC, Taishin increased its 2005 bad debt reserve by NT\$19.1 billion to NT\$39.1 billion. This nearly doubling of reserves contributed to an accounting change from after-tax profits of NT\$11.08 billion to after-tax losses of NT\$3 billion in 2005.

#### Better Credit Reputation

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[16.](#) The accounting losses have not hurt Taishin's credit reputation or its share price. Taishin's bad debt reserve increased to 60% of its total non-performing loans (NPL), up from 54.5% before the injection of new capital, and will reach 107.5% of its credit card and cash card NPLs. Taishin's debt-asset ratio will decline to 37.5%, and its capital adequacy ratio will increase to 121.9%, according to Taishin President Chen Hwai-chou. Taishin's share price has risen steadily from NT\$17 per share in early January to NT\$18.3 in late January and NT\$20.9 on February 6 and NT\$21 on February 7. Foreign investment banks such as Merrill Lynch and Credit Swiss First Boston expect Taishin share prices to rise to NT\$22 per share in the near future.

[17.](#) Local media has speculated that despite NC's acquisition of over 20% ownership in Taishin, it may not be interested in operating the firm over a long term, but rather will

likely re-sell Taishin after improved operations and management push up Taishin's share prices. With the additional capital from NC and Nomura, Taishin will acquire another 17.5% of ownership in Changhwa Commercial Bank (CCB).

18. In July 2005, Taishin purchased 22.5% equity in CCB (reftel), and since then, Taishin has written off enough bad debt to reduce CCB's NPL ratio from 5.45% in July to 1.67% in December 2005 and has increased the CCB's bad debt reserve ratio from 25.49% to 99.84%.

COMMENT  
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19. In addition to providing needed capital, the deal gives Taishin an opportunity to learn from NC's and Nomura's experiences in business strategy and corporate governance, and possibly to expand cooperation with both companies across markets and products. NC and Nomura both have a strong presence in regional finance and offer the possibility of a China play: NC has a controlling stake of 18% in the Shenzhen Development Bank, Nomura is a major provider of asset management and portfolio investment services in China.

110. The fact that Taishin needed to double its reserves to make this deal with NC indicates that the acquisition of Changhwa brought in a lot of bad debts, however, the fact that Taishin's deals with NC and Nomura took place also indicates that Taiwan's better banks are attractive to foreign investors.

DAVISON